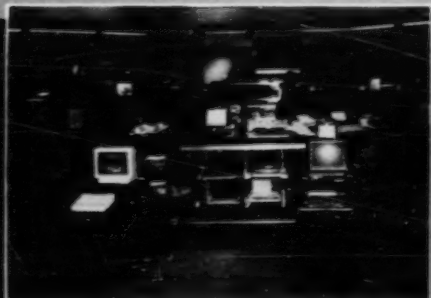
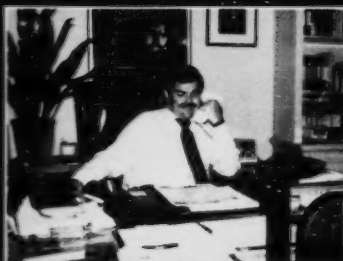


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GORDON PUBLICATIONS — 25th ANNIVERSARY YEAR

OCTOBER 1986

**THE HOME OFFICE****TELECOMMUNICATIONS****EXECUTIVE SPOTLIGHT****APPLIANCES**

Yes, Virginia, there is a market. And the pioneers are already staking their claims.

The holidays should make fat cats out of TCRs if the push isn't too low key.

Paramount's Klingensmith: "If the U.S. is not totally aware that you can buy video after Christmas, then we can all go back to high pricing."

Laundry sales for '86: Spinning fast, or just another basket case?

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INDEPENDENTS: Dancing With The Big Boys



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Independents: Dancing with the big boys

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Gearing up for home office sales

The climate appears ripe for sales of home office products. Manufacturers and retailers alike are multiplying their efforts to reach this growing segment. The question is, how high is up?

by Henry Fersko-Weiss

Until recently the home office market was hidden behind the mantle of small business. There was no doubt that the market existed. The question was how to reach it.

Now, manufacturers and retailers are targeting the home office with direct advertising and a well rounded mix of products. Sales projections are soaring, and most everyone agrees that the office market is finally coming home.

"There's a lot of excitement about the home office market because the consumer electronics industry is having a hard time—companies are watching their profit margins shrink," says Chris Jackson, an analyst at the Yankee Group, a research and consulting firm in Boston. "They're learning that they have to split the market up into smaller pieces and do a better marketing job. So they're scrambling to identify market segments that will be profitable. The home office is seen as such a market and has now become a prime target."

More than just an arbitrary segment of the small business market, the home office market is a natural grouping of users who are just now being recognized.

"The home is one of the fastest growing work places," relates John Widlicka, of Sharp Electronics, in Mahwah, New Jersey. "According to government statistics there are 30,000 businesses born each month, and many of these are in the home," Widlicka explains. "There are already 6 million reported offices at home, and

nobody knows how high is up: it's a tremendous opportunity." Widlicka is general manager of the Personal Office Equipment Division created by Sharp in August to spearhead its drive into the home office market.

Industry people throw around many different numbers on the size of the home office market. Most frequently quoted is 23 million—a number that comes from the U.S. Census Bureau. But Census data can be unreliable. Probably the most reliable numbers come from Electronic Services Unlimited (ESU), a New York-based research and consulting firm specializing in work-at-home.

According to an extensive survey the company did in January, there are 10.6 million households with home workers. This number includes both home-based businesses and corporate employees who do a "significant" amount of work at home. While there are some differences in the buying patterns of these two groups—home businesses tend to buy more copiers, for example—more than 10 million homes are ripe for office equipment.

This past spring, the Yankee Group did its own market analysis, called the Telephone User Tracking Study. It came up with 4.9 million full-time home businesses and 3.2 million part-time home businesses. Both studies made an important discovery: the market is wide open. Even products that have been sold into homes for years, such as telephone answering devices (TADs) and personal computers, have achieved relatively small market penetration: 27 percent and 37

percent, respectively. Newer products that are beginning to symbolize the modern home office, such as personal copiers and compact facsimile machines, are just slivers on a pie chart: seven percent and two percent respectively.

Both studies indicate that home office workers are eager buyers. Their purchasing plans this year indicate a 50 percent growth rate for copiers and 75 percent for faxes. Even sales of personal computers and TADs are expected to grow at about 29 percent annually.

the entrepreneurial spirit in America and the interest in small business. The kitchen table is often the proving ground for small businesses.

"Third, is the personal computer, which has made it possible to do more varied work at home and to telecommute to the office. Fourth, is a group of quality-of-life factors. This includes a desire for more family time or more leisure time, a desire to commute less or earn extra income."

These forces are reflected in the makeup of the home office population.



Research firms decline to estimate how fast the home office phenomenon is growing. It is too new and the market is difficult to define, they say. But an estimate based on U.S. Chamber of Commerce statistics puts the market at 15 million by 1990. Numbers aside, nearly everyone agrees the market will continue to grow.

"There are four driving forces to the market, and they are all likely to continue," says Tom Miller, director of research for ESU. "The first is the large number of women returning to the work force. A substantial number of them start home businesses or sell out of the home. Second, is the rise in

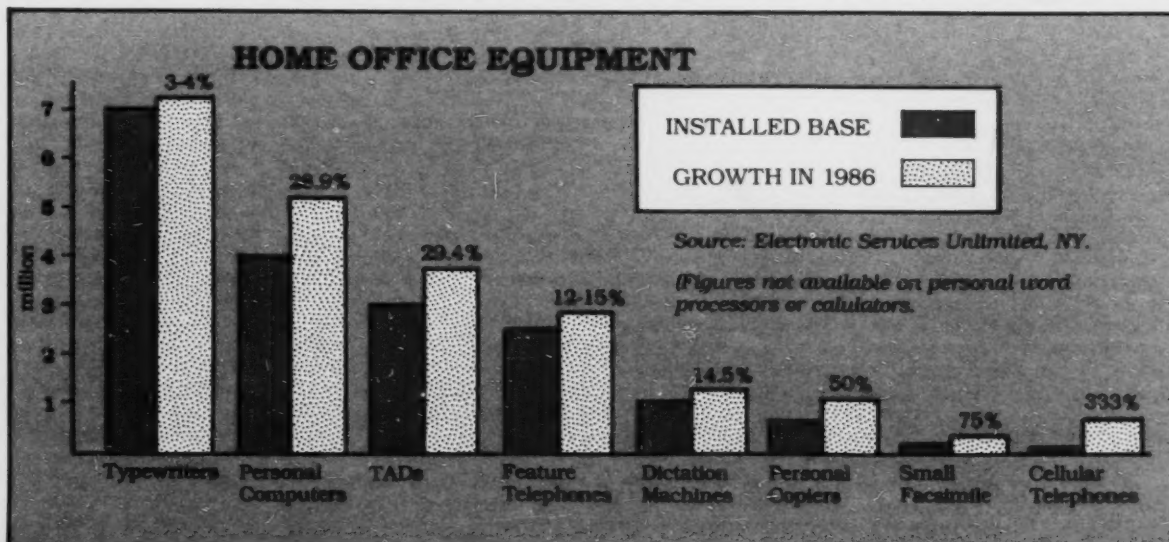
Although virtually every occupation is represented, the majority of people are either business professionals—accountants, managers, analysts, and so on—or in service occupations—home construction, electrical, nursery care, etc. Another large category is sales.

Consumer electronics companies are just beginning to awake to the potential of the home office market. Even companies that brought out products suitable for this marketplace early on, have only recently focused their attention to it. Canon U.S.A., Inc. is one example. The company pioneered the personal copier field by introducing its PC20 copier in 1983.

Canon first sold its copiers through traditional copier dealers. After that it sold through computer and electrical appliance stores. Finally, it moved into mass merchants, and just recently service merchandisers and catalog houses. It wasn't until 1985, says Ted Morikawa, product manager of the personal copier division, that the company attempted to distinguish between home, personal use and small business use.

"In the first quarter of '85, the sales breakdown was 11 percent for personal use and 89 percent for small business use," Morikawa says. "By the fourth quarter the personal use had increased to 19 percent."

Still, Canon feels its copiers are not yet ideally suited for home office use. "We have to study the market more to see what features people are looking for," he says. Morikawa also thinks the ideal home office copier will have to be priced in the neighborhood of \$500.



This price was mentioned by Haruo Murase, vp and general manager of Canon's reprographics product group, two years ago in a Wall Street Journal article, when he discussed his idea of a dream machine. This dream is still being pursued by Canon, and represents its plans for future copier products.

Other big players in this market aren't waiting on dreams. Sharp is one of the fastest moving companies, at least in its marketing strategy. Its philosophy is to unify home office products under the banner of one division. It is the first consumer electronics company to do so. "Buyers [retailers] like to be able to deal with one rep rather than having a half a dozen people call on them," Widlicka explains. "Plus, we plan to go into many channels of distribution, from existing office suppliers to retailers, consumer electronics stores, photo stores, catalog houses and discount merchandisers. Overall coordination of this distribution dictates one division."

The first product Sharp's Personal Office Division brought out was a personal copier, called the Z50. It measures roughly 15 x 16 x 8 inches and weighs under 35 pounds. It will copy to paper ranging in size from a business card to an 8-1/2 x 11 inch sheet. The company started shipping the Z50 in September, at a price of \$799, which is slightly lower than any copier in Canon's line.

A somewhat bigger unit with one enlargement and two reduction modes, the Z70, ships in December. Despite a press release stating the Z70 would be \$1,299, Widlicka suggested that the price actually would be more in line with that of the Z50.

Why did Sharp use personal copiers to tap the home office market? "Some 300,000 copiers will be in home offices by the end of 1986, according to Dataquest," Widlicka says. "By 1990 more than 600,000 units will be sold. And this figure may be conservative, because it doesn't take into account new technology."

Other products Sharp could eventually sell through the Personal Office Equipment Division include typewriters, facsimile machines, calculators, computers and white boards (electronic blackboards). All of these products are currently sold by Sharp into large businesses, but could be redesigned for the home office. The list represents a substantial portion of the products typically grouped as home office equipment. Missing are dictation machines; TADs; feature phones and cellular phones; personal word processors, and some new hybrid equipment that includes personal computers with built-in telephones, and telephones with built-in TADs.

This group of products may represent only the beginning. "There isn't a lot of work being done yet to see what unique products will appeal to these people [home office workers]," remarks Yankee Group's Jackson. "But in the future there will be, and companies will come out with ever more sophisticated equipment, and more of it."

But therein lies a problem, according to Jackson. "Everybody is so anxious to jump on the bandwagon that any market advantage could be quickly dissipated," he says. "There's a lot of pack mentality in the consumer electronics business. A good example is what happened with 'hot' color

phones. When these phones were first brought out by Conair and General Electric, both companies were able to achieve increased market share. Then everybody hit on the same idea. There was no way to differentiate products, prices were driven down and now nobody makes any money. There are so many companies poised to attack the home office market that the same thing may happen."

The reason the current mix of products appeals to the home office buyer can be summarized in one word: productivity. It parallels a trend in Corporate America. The personal computer



Bamberger's Willowbrook Mall location in Wayne, NJ features a high-tech styled business center which highlights an array of home office products.

"Canon's new personal copiers are at home in any business."

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awakened everybody to how far productivity gains can be made in white collar jobs.

"Home businesses have to get more out of scarce resources—principally time, but money as well," says ESU's Miller. "It's a matter of leverage. For example, a home business can do a mass mailing with a computer and copier and get a lot of mileage for little investment. Before, it would have to be done through a service bureau, which was prohibitively expensive.

The primary sellers of home office products are likely to be large-scale retailers and consumer electronics stores. But discount merchandisers, warehouse clubs and catalog houses are also joining the



Sharp's entre into the home office market was the Z50 mini-copier which lists for \$799. Some 300,000 copiers are expected to be in U.S. homes by year-end.

fray. The merchants see the same potential the manufacturers do. Some retailers have been consciously marketing to home offices for a couple of years. Others got in and out of the market before it had a chance to jell.

One of the first retailers to target the home office was Sears. For years it grouped electronic equipment together in its stores and offered an Office Equipment and Supplies Catalog addressed to small businesses. Sears clientele is typically the personal shopper or small business.

The company built up a reputation for fair priced merchandise and good service. This reputation made it dominant in the typewriter and telephone markets. When computers, and later, personal copiers came along, Sears found it natural to include these products in the office product area.

Today that area is referred to as the Home Office and Equipment Center. There is no sign to indicate this—Sears uses wall signs for only a couple of departments—but if shoppers ask for the home office center, salespeople

know where to direct them.

"The response to our approach has been excellent," says Mike Managan, marketing communications manager at the headquarters in Chicago, Illinois. "The customers we are reaching are Sears' core customers."

Bamberger's—soon to be called Macy's—is another chain succeeding at targeting the home office buyer. In its larger stores is a department offset with an overhead wall sign which reads "Business Center." Shoppers will find computers, printers, typewriters, copiers, cash registers, telephones, and more.

The push to create these departments in Bamberger's started about a year ago, says Bud Pomeranz, vice president of public relations. As a measure of how successful this approach is, Pomeranz says that "no future Bamberger's will be built without a home office department."

Simply grouping products together is no surefire road to success. Bloomingdale's learned this last Christmas and has consequently stopped carry-

ing computers and copiers—two hallmarks of the home office. "We were hardly moving the computers, and we weren't selling the copiers at all," says Shelly Helfrand, manager of the consumer electronics department at Bloomingdale's main store in New York.

The department is leased by Platt Music Co., one of the country's largest retailers. Helfrand says he's not quite sure why the approach failed. "Maybe it was the marketing, maybe it was the price," he speculates.

Many computer manufacturers gave up on the home market a couple of years ago. It just didn't seem to materialize. This year will be different, according to ESU's Miller. Home business buyers will surpass corporate employees who do extra work at home in both percentage of market and absolute numbers.

Computer makers may begin to look toward the home again. Canon is only now thinking of focusing on the home buyer. Most of its advertising money targeted the small business buyer, who typically feels more comfortable in the office supply store. Today, manufacturers are starting to spend big dollars to reach the work-at-home crowd and are coordinating that advertising with retailers.

In September, Sharp announced a corporate advertising program of \$20 million. Widlicka says that this includes a multi-million dollar campaign for his division. "We're going to promote our products heavily in the national media, such as consumer magazines and newspapers, trade publications, direct mail and collateral store material and eventually television," Widlicka says.

Sears and Bamberger's, too, are ready to heed Sharp's call. "We do a lot of advertising using the home office label," says Pomeranz of Bamberger's. "Of course, we don't do as much as we do for TVs and VCRs, but it's still substantial."

One of the other key elements to success is training of personnel. Sears, for example, has a national staff that makes biannual visits to all the stores. They conduct full day sessions of hands-on training for new product lines. These sessions are also used for questions about other products and discussions of sales technique.

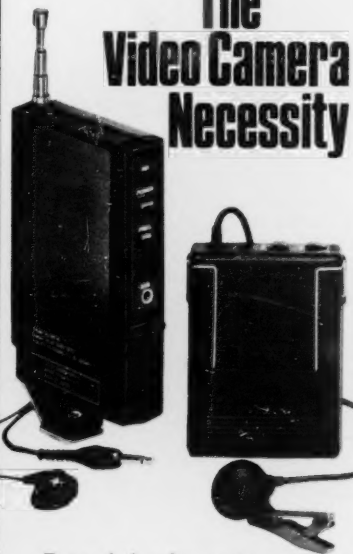
Carrying the proper mix of products is just as important as advertising and training. Pomeranz, for example, notes that sales in Bamberger's Business Centers started taking off when the product mix was broadened. The psychology here is obvious, shoppers buy more when they see more.

Sharp's Widlicka suggests that retailers also carry supplies for the equipment, such as toners, typewriter and printer ribbons, computer software, floppy disks. "The secondary supplies are easy to sell and add a lot to sales," Widlicka says. "We are encouraging all our retailers to support such sales." While having such a large product mix means much larger inventory and a much higher cost to the retailer, the impact on overall revenues and profits seems to justify it.

There are no easy answers to success in the home office market. But the signposts are getting clearer and more manufacturers are becoming involved. We just could be on the verge of the next hot market of the '80s and '90s. □

Henry Fersko-Weiss

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